July 12, 2021
Guideline Collateral Asset Purchase Memo

IFA GROUP

CREDIT ENHANCEMENT

Project owners who are able to purchase (as opposed to 'lease') a Tier 1 bank instrument (SBLC) for credit enhancement purposes, can raise a credit line against it at their bank. As long as the LTV of the credit facility exceeds the total cost of acquisition, the project owner will create a positive balance that serves as net available, non-repayable project funding in the form of a lump sum. The credit facility is **de facto non-repayable**, because the facility, interest, and bank charges are (re)paid after 1 year from the SBLC instrument's liquidation after 366 days, rather than from other sources such as project/business revenues. Subject to monetizer (bank) appetite and client capability, this process can be repeated to secure more funding.

Additionally, the client can activate an effective supplemental structure by allocating 10 million+ euros of funding proceeds to an **investment-based funding structure** (private placement) that produces a predictable stream of development capital, <u>with an institutional guarantee for the returns and without risk to the principle.</u>

ITEMS TO CONSIDER

Roadmap
IFA Group gathers certain client information before involving the selected specialist - either of our seasoned Asset Managers (AM). Once we have a sufficiently fleshed-out file (Detailed LOI + CIS + POF), it serves as a formal request to the selected AM to engage with the client and/or his legal advisor to get a full and proper understanding of the client's situation and suggest a solution. This may take one or several phone calls.

A Sufficiently Documented Letter of Intent
Because there are many possible Selling Groups the AM can turn to with each their own queries and entry-level requirements, the AM needs the client to be as clear as possible in his request. Aspects to address in the LOI:

- **What does the client want and perhaps an idea as to what his intention with the transaction is?**
  In the call, the AM will inquire about the purpose the client has for the transaction to see if he can expedite that desired outcome using the (considerable) resources at his disposal.

- **What is the procedure the client expects?**
  His expectations will point towards a certain category of offers that will have their own entry-level requirements and pricing ranges. Generally speaking, if a client is expecting extremely low prices which points towards a certain group of sellers that require a Funds First procedure, but on the other hand he expects a DVP process, this will then lead to a mismatch between client expectations and market reality.

- **What financial capability does the client have?**
  As above. It must be possible to match expectations with market reality. The key here is to establish what financial resources the client has at his disposal; the more resources, the more seller groups can be considered. A client might have available:

  - <u>Most options, best prices, most net available funding:</u>
    - **Cash** for the first 1 or 2 tranches + an **Active Credit Line** to take down the rest; or a
    - **Active Credit Line**, but no cash; or a

  - <u>Fewer options, somewhat higher prices, less net available funding:</u>
    - **Conditionally Sanctioned** but not yet active credit line = conditional to the SBLC delivery

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- **What pricing expectations does the client have?**
  These should match the above client capability to be able to make a price/terms match with either of the selling entities. Different types of collateral instruments have different prices.

  - **'Fresh Cuts'** (= Colloquial term for **'New Issue'** which is literally created during the transaction) have the lowest pricing (from mid 30ies*) but usually require a Funds First (FF) procedure. However, this can be resolved by having a commitment holder do the FF part of the transaction and offload immediately to the client, which will add on a margin for the commitment holder and raise the prices to low-mid 40ies*

  - **'New Issue'**, which is up to a few months old, low-mid 40ies*

  - **'Slightly Seasoned'**, offered continuously by a Consortium of major Global Insurance groups, which have the lowest entry-level requirements as you know: No upfront fees | No cash down | Also works with a conditionally sanctioned credit line from an acceptable bank, provided they provide an acceptable guarantee of payment format ahead of the delivery of the instrument |Comfortable 30-day payment term AFTER (DVP) delivery of the instrument | Issue with and without 'wealth management' element in the form of a dividend. The pricing is subject to contract size starting from 48* without dividend structure and low-mid 60ies* with dividend structure (=net price from 48* after 12 monthly payments to the buyer of the instrument of 1% dividend paid by the Global Insurance Group that sells the instrument).

  *) All prices are indicative and subject to market/contract size.

- **Client Proof of Funds**
  Since most of the Selling entities will only open discussions with the AM after having a full client KYC file + verifiable POF, the LOI should be accompanied by a form of POF such as Bank statement, ATV Letter (Authorization to Verify), BCL (Bank Confirmation Letter), Bank RWA (Ready Willing and Able), Tearsheet. These can all be sent to a secure email if necessary.

  - **Note:** In some rare cases where the client is a credible party interested to purchase large contracts of instruments, the Trade group can request and accommodate an in-house, on-screen proof of funds at the client bank in full, step-by-step coordination with the bank of the client.

- **Guarantee of Payment**
  The client bank must be acceptable (seller discretion) and provide an acceptable form of guarantee of payment (seller discretion). The AM will discuss and need to understand which form of guarantee of payment will be used. Ultimately, the Buyer bank Trade desk and the Seller bank Trade desk bank must agree on a specific format.